



**Aalto University**  
School of Business

# **What Matters in Cross-border Acquisitions?**

A systematic review on performance factors  
in cross-border mergers and acquisitions

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Matias Leikkonen  
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# Abstract

Cross-borders mergers and acquisitions have become one of the most important tools that firms have at their disposal for expanding abroad. Yet research has shown that the abnormal returns for the acquiring firms' shareholders are usually negative or around zero. However, prior research has identified several factors that moderate the returns that result from the transactions. In the prior literature, the picture of the different factors wasn't very clear. This paper aims to fill the gap by conducting a systematic review on the topic. Four primary factors are found to affect returns for acquiring firms' shareholders in cross-border mergers and acquisitions. First, the investor-friendliness of the target country legal system affects the returns negatively. Second, acquirers that have more cross-border acquisition experience are able to get better returns. Third, cultural differences between the involved firms have complex but, on average, slightly positive effects. Fourth, acquisitions of technologically advanced targets produce better returns for the acquiring firms. After presenting the results, the implications of the results and possibilities for further research are assessed.

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# 1. Introduction

Mergers and acquisitions is a topic that has attracted attention from a variety of disciplines (Cartwright & Schoenberg, 2006). Mergers and acquisitions have significant monetary and strategic effects, which makes them an interesting area of research (Haleblian, Devers, McNamara, Carpenter & Davison, 2009). Furthermore, these restructuring activities have significant consequences for many different stakeholder groups (Cartwright & Schoenberg, 2006). Mergers and acquisitions are an important strategic tool for business executives seeking to develop their companies (Shimizu, Hitt, Vaidyanath & Pisano, 2004; Cartwright & Schoenberg, 2006). In recent years, the total volume of transactions that are completed annually has risen significantly. Given the importance of mergers and acquisitions, it is not surprising that the topic has attracted increasing academic attention.

Mergers and acquisitions where the acquiring firm and the target firm are located in different countries are referred to as cross-border mergers and acquisitions. The strategic importance of cross-border mergers and acquisitions has grown in recent times (Shimizu et al., 2004; Meng & Sutton, 2017) and cross-border transactions represent a growing part of the total volume of transactions (Erel, Liao & Weisbach, 2012). While cross-border transactions are in many ways similar to domestic transactions, they also differ in many important ways (Erel et al., 2012). For this reason, they are a phenomenon that is worth looking into independently.

In mergers and acquisitions research, one of the most significant questions has been the ability of acquisitions to generate wealth for acquiring firms' shareholders. The evidence on the matter is inconclusive (Cartwright & Schoenberg 2006; Loughran & Vijh, 1997). The average returns for acquiring firms' shareholders are commonly found to be insignificant or negative (e.g. Loughran & Vijh, 1997; King, Dalton, Daily & Covin, 2004; André, Kooli & L'Her, 2004). Several researchers have identified factors that determine the returns for acquiring firms' shareholders (e.g. Loughran & Vijh, 1997; Datta, Pinches & Naraynan, 1992). For example, mode of payment and type of acquisition affect returns (Loughran & Vijh, 1997). Many researchers (e.g. Du & Boateng, 2015; Datta & Puia, 1995; Harrison, Hitt, Hoskinson & Ireland, 1991) have also looked at performance factors in cross-border mergers and acquisitions specifically, and they have found both company-level and country-level factors that determine returns for the acquiring firms' shareholders in cross-border transactions.

However, as noted by Shimizu *et al.* (2004), the research on cross-border mergers and acquisitions is fragmented across different academic disciplines. Moreover, there doesn't exist a recent literature review that would summarize the different factors that affect wealth creation in cross-border mergers and acquisitions. This is surprising, given the large volume of these transactions. Forming a clear view of the most important performance factors would be critical, as it would help managers to evaluate opportunities more systematically and thus create value for shareholders. As stated by King *et al.* (2004), the conditions under which mergers and acquisitions do generate value need to be understood better.

This research paper aims to summarize and evaluate the existing scientific literature on performance factors in cross-border mergers and acquisitions. The object is to identify factors, whether country-

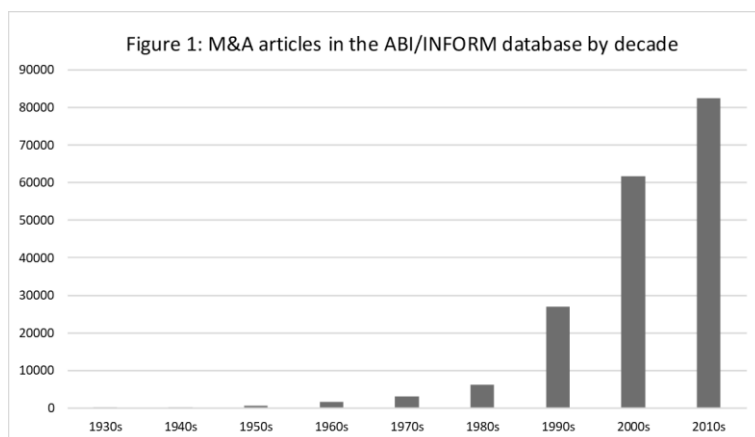
level or company-level, that affect the returns for acquiring firms' shareholders in these transactions. The viewpoint taken is the one of acquiring firms' shareholders because of the following two reasons. Firstly, returns for acquiring firms' shareholders, rather than returns for target firms' shareholders or combined returns, have been subject to much research and debate. Secondly, since acquiring firms' managers and investors are generally the ones who need to identify and evaluate acquisition opportunities, it is more practically relevant to assess value creation in cross-border from their point of view. This paper delves into factors that are related to both long-term and short-term performance. Consistent with the multidisciplinary nature of M&As as a phenomenon, the literature sample includes studies from a variety of fields, most notably accounting, finance, management and international business.

As mentioned, several authors have already studied performance factors in cross-border mergers and acquisitions. For this reason, the appropriate method for forming a holistic understanding of the factors involved is systematic literature review. A systematic review brings together earlier findings by summarizing, evaluating and comparing them. Thus, this article is a systematic review. This paper begins by giving background on cross-border mergers and acquisitions and mergers and acquisitions in general. Then, in section three, the used methodology is presented. Section four summarizes the articles that were selected in the review process and presents the results of the review. In section five, the results are discussed further.

## 2. Background

### 2.1 Introduction to mergers and acquisitions research

Mergers and acquisitions is a topic that continues to attract attention in a variety of business disciplines. As shown in figure 1, mergers and acquisitions research started to emerge in the 1970s and the area has been subject to increasing academic attention ever since. As Cartwright and Schoenberg (2006) suggest, mergers and acquisitions represent a complex phenomenon that has financial, strategic, behavioral, operational and cross-cultural aspects, which it makes it an attractive area of inquiry in many academic disciplines. The subject of mergers and acquisitions has become a focus area in many academic fields (Haleblian et al., 2009). As Cartwright and Schoenberg (2006) note, mergers and acquisitions have significant effects for many different stakeholder groups. This makes mergers and acquisitions interesting from both practical and theoretical perspectives.



Note to figure 1: Figure 1 shows the number of search results in the ABI/INFORM database.

Search string “Mergers OR Acquisitions)” was used and the search was limited to peer-reviewed content. The total number of search results was 183426

As stated by Haleblan et al. (2009), existing research on mergers and acquisitions has focused on three main questions. Firstly, much of the early research on the topic focused on the value-generating capacity of mergers and acquisitions. In this line of research, many researchers have focused on the post-acquisition performance of the acquiring firms (e.g. Loughran & Vijh, 1997; Franks, Harris & Titman, 1991). Secondly, researchers have looked at the antecedents of acquisitions, seeking to uncover the reasons that lead to acquisitions (e.g. Rossi & Volpin, 2004; Uddin & Boateng, 2011). Thirdly, studies have tried to identify factors that mediate the performance of mergers and acquisitions (e.g. Datta, Pinches & Naryanan, 1992).

As the objective of a firm is generally assumed to be to generate wealth for its shareholders, it is quite natural that the wealth effects of mergers and acquisitions have been studied. Thus, the economic performance of acquiring and target firms has been subject to much research (Haleblan et al., 2009). In this line of research, researchers (e.g. Loughran & Vijh, 1997; André et al., 2004; Datta et al., 1992) have analyzed the returns that the acquiring and acquired firms’ shareholders get as a result of mergers and acquisitions. The researchers have analyzed the performance of these events mainly by measuring either announcement period abnormal returns (see e.g. Uddin & Boateng, 2009) or long-term returns<sup>1</sup> (see e.g. Loughran & Vijh, 1997). These studies have provided some very interesting results, the most important of which are presented in the next section.

## 2.2. Economic performance of mergers and acquisitions

According to Cartwright and Schoenberg (2006), while it is a largely unquestioned fact that acquisitions bring positive short-term consequences for the shareholders of the acquired firm, wealth effects for the shareholders of the acquiring firm are questionable. Similarly, Haleblan *et al.* (2009) note that while researchers have usually found that acquisitions provide positive combined returns, almost all the gains go to the target firms’ shareholders and acquirers’ shareholders earn insignificant

<sup>1</sup> A more complete description of the methods that are used to measure the performance of mergers and acquisitions is provided in Appendix A.

or negative returns. According to Loughran and Vijh (1997), it is typically found that target firms' shareholders earn significantly positive returns from all acquisitions, while acquiring firms' returns are neutral or negative. Therefore, it can be said that target firms' shareholder returns are unquestionably positive, but the returns for acquiring firms' shareholders is a much more interesting question.

Using a sample of 947 acquisitions from 1970 to 1989, Loughran and Vijh (1997) found that, compared to matching firms, acquirers underperform by 6,5% in five years, but this result did not reach statistical significance. This finding is supportive of the view presented earlier, which stated that returns for acquiring firms' shareholders are insignificant or slightly negative. Further supporting this view are Franks *et al.* (1991), who find that bidding firms' abnormal returns over an 11-day announcement period are again slightly negative, yet statistically not different from zero, and that long-term abnormal returns for bidding firms are statistically zero. While the two mentioned studies found no convincing evidence of a statistically significant wealth effect, André *et al.* (2004) found the performance effects of mergers and acquisitions for the acquirers to be significantly negative. In this study (*ibid.*), all three-factor model intercepts were negative and statistically different from zero across all timeframes, which points rather convincingly to a value-destructing effect.

In a meta-analysis on the financial performance of mergers and acquisitions, King *et al.* (2004) find that, over every measurement period of 22 days and longer, mergers and acquisitions result in a negative abnormal return for acquiring firms' shareholders. Given this finding, along with the fact that not one of the presented studies finds a value-creating effect, it can be said with a high-level of confidence that mergers and acquisitions don't, generally speaking, result in wealth gains for acquiring firms' shareholders. However, the returns aren't always negative as there are factors that influence the results of these events. These factors are examined in the next section.

## 2.3. Performance factors in mergers and acquisitions

While the fact that mergers and acquisitions, on average, do not create value for the acquiring firms' shareholders is rather well established at this point, the wealth effects of mergers and acquisitions are not uniformly negative. In the existing literature on the performance of these events, several factors that moderate the wealth effects of a transaction have been identified. These factors are related to acquirer characteristics, target characteristics and deal characteristics. By studying the factors that influence the performance of mergers, it is possible to identify M&A-opportunities that have greater capacity to generate value for shareholders.

There are several factors related to the structure of deal itself that have been observed influencing the performance of a transaction. For instance, Loughran and Vijh (1997) found that form of payment and mode of acquisition have an effect on the wealth effects of an acquisition. In their study, tender offers outperformed mergers and cash-based deals outperformed stock-based transactions, although the result was only significant when the two factors were combined. Most notably, cash tender offers earned five-year excess returns of roughly 62 %, while stock mergers earned excess returns of -25 %.

Franks *et al.* (1991) found slightly more inconclusive evidence regarding the effects of these deal level factors, as their results did not reach statistical significance across some of the different benchmarks and timeframes. However, André *et al.* (2004) did find statistically significant evidence of the effects of these factors. Additionally, Datta *et al.* (1992) find a statistically significant negative coefficient for equity-based offers. Combining the results of these different authors, it seems quite clear that cash-based deals and more hostile acquisitions outperform their opposites. The hostility of an acquisition to target managers is likely to produce a disciplining effect that increases returns for acquiring shareholders (Loughran & Vijh, 1997). The overperformance of cash-based deals and underperformance of stock-based deals, on the other hand, probably result from asymmetric information between managers and stockholders (*ibid.*).

Many firm-level variables, related to both the target and the acquirer, that moderate acquisition performance have also been identified. For example, André *et al.* (2004) found that acquirers with higher book-to-market ratios (“glamour acquirers”) underperform significantly. Datta *et al.* (1992) found that non-conglomerate mergers produce higher returns for bidding firms. The listing status of the target firm has also been observed as having an effect on the performance. For example, Meng and Sutton (2017) found that acquisitions of public targets are associated with lower announcement returns.

In the research on the performance factors in mergers and acquisitions, one factor that has been studied is whether the transaction is within a country or across country borders. While there is no conclusive evidence on the performance effects of this factor (see. e.g. Lowinski *et al.*, 2009), the acquisitions that are completed across borders represent an interesting subclass of mergers and acquisitions. The next section delves into these transactions more closely.

## 2.4. Cross-border mergers and acquisitions

Cross-border mergers and acquisitions (also referred to as CBMAs, CBAs or CBM&As) are mergers and acquisitions where the acquired and acquiring firms are located in different countries. As noted by Uddin and Boateng (2009), cross-border mergers and acquisitions have become more common in the past decades as capital markets have globalized. Cross-border mergers and acquisitions have become one of the most important tools for expanding abroad and finding growth opportunities (Meng & Sutton, 2017).

The effects of cross-border mergers and acquisitions on acquiring firms’ shareholders have been studied by several authors in the 21<sup>st</sup> century. Both Moeller and Schlingemann (2005) and Meng and Sutton (2017) found that acquiring firms that acquire cross-border targets experience lower announcement stock returns. Additionally, Uddin and Boateng (2009) also found that UK cross-border acquirers earn negative announcement returns. Consistent with these findings, André *et al.* (2004) find evidence of underperformance of cross-border M&As compared to domestic deals. Contrary to these findings, Kiymaz (2003) finds that U.S.-based cross-border actually experienced wealth gains, although the results varied between target countries. Results by Lowinski *et al.* (2004) suggest that



there is no statistically significant difference in returns between domestic and cross-border acquisitions. Combining the findings of the different studies on the performance of cross-border acquisitions, it seems likely that the returns of cross-border mergers and acquisitions for acquiring firms' shareholders are similar to those of all mergers and acquisitions, at least in the sense that the average returns are insignificant or negative.

As cross-border mergers and acquisitions are a sub-class of mergers and acquisitions, one would expect that most of the factors that have been identified as influencing the performance of M&As in general would also affect the performance of cross-border M&As. Indeed, Udding and Boateng (2009) find that many factors that have been studied in the broader context of M&As (e.g. payment method, target relatedness) are also relevant in the context of cross-border M&As. However, cross-border mergers and acquisitions do differ from domestic deals in many important respects, for which reason factors that influence performance exclusively in cross-border mergers and acquisitions have been studied.

Many studies that investigated the wealth effects of cross-border acquisitions have also identified factors that moderate wealth effects of cross-border acquisitions (e.g. Meng and Sutton, 2017; Morosini, Scott & Singh, 1998; Aybar & Ficici, 2009). These studies have identified both country-level and company-level factors that have influence on the returns for acquiring firms' shareholders. Country level factors are factors related to the target firms' and acquiring firms' home markets. For example, Meng and Sutton (2017) find that firms acquiring targets in less competitive takeover markets outperform bidders that acquire targets from more competitive target markets. Company-level factors, on the other hand, are factors that relate to the characteristics of the firms involved in a specific transaction. For example, in study that analyzed Chinese firms, Du and Boateng (2015) found that state-owned firms achieved higher announcement returns in cross-border acquisitions.

Despite the research on performance factors in cross-border mergers and acquisitions, there hasn't emerged a clear picture of the factors that influence returns. As stated by Shimizu et al. (2004), the research on cross-border mergers and acquisitions is fragmented across different disciplines. Academic disciplines with substantial contributions to the topic include accounting, finance, management, economics and international business. The dispersion of the studies across different academic disciplines can make it harder to form a clear picture of the performance factors involved. It is clear from the existing literature that cross-border mergers and acquisitions have characteristics that make their effects worthy of looking into as an independent phenomenon. There exists a growing body of research on the factors that mediate the wealth effects of these events for the acquiring firms' shareholders. A synthesis of the different studies is still lacking, which can make it hard to apply the findings to practice.

As stated above, the picture of the different performance factors in cross-border mergers and acquisitions is not clear. As cross-border mergers and acquisitions represent a significant and growing part of all merger and acquisition activity (Erel et al., 2012), understanding the factors that determine their success is important. This paper aims to contribute to the existing stream of literature by filling

this gap. Hence, the main objective of this paper is to form a clearer picture of the factors that determine returns for the acquiring firms' shareholders in cross-border mergers and acquisitions.

### 3. Methodology

This paper uses a systematic literature review approach to identify factors that determine the wealth effects for acquiring firms' shareholders in cross-border mergers and acquisitions. As many studies have identified different performance factors, conducting a systematic review helps to bring together the findings of the earlier studies. By summarizing, synthesizing and assessing the research on the different factors, it possible to form a clearer view of the relevant information.

The process used to systematically review the literature on the topic is similar to systematic reviews conducted earlier (e.g. Calabro et al., 2018), although the process is modified to suit the needs of this particular study. In a systematic review, literature is first searched for in the database and the results are then narrowed down by using specific, predetermined criteria. *Table 1* summarizes the process that was utilized to find the relevant literature in this study. The articles were searched for in the ABI/Inform database, and the searched terms had to be found outside the full text.

The first step in the review process is to identify the search terms that will be used to find the relevant articles in the database. In this study, the Boolean search string “(mergers OR acquisitions) AND ((cross border) OR cross-border) AND (success OR performance OR wealth OR returns)” was used to find the articles. The reasoning for using the selected search string is as follows:

1. As the topic at hand is cross-border mergers and acquisitions, any relevant articles will include either the term “mergers” or the term “acquisitions”. Some authors use the two terms rather interchangeably, while others limit the use of the term “merger” to friendly acquisitions.
2. The study only focuses on cross-border mergers and acquisitions, not the whole field of mergers and acquisitions. Thus, the relevant articles should include the word “cross-border”. As some authors omit the dash in the term and use a space instead, the phrase “cross border” was also added to the search.
3. The purpose of the study is to analyze the factors that influence the performance of cross-border mergers and acquisitions. Therefore, only articles that look into the performance of these events should be included. There are many possible phrases that could refer to the performance of these events, for which reason four alternatives were included in the search string.

The results were limited to peer reviewed content to ensure the scientific credibility of the results. For the sake of readability, any included articles had to be written in the English language. The initial search provided 290 results in the ABI/Inform database. These results were then filtered to only include articles published in high-quality journals. Only articles published in journals listed as level 2

(leading quality) or level 3 (highest quality) publications (as listed at [tsv.fi/julkaisufoorumi](http://tsv.fi/julkaisufoorumi)) were included. Level 2 or 3 journals present in the search results were *Journal of International Business Studies*, *Journal of Banking and Finance*, *Journal of World Business*, *Journal of Business Finance and Accounting*, *Strategic Management Journal*, *British Journal of Management*, *Journal of Business Research*, *Long Range Planning*, *International Journal of Industrial Organization*, *Journal of Corporate Finance and Economics*. This filtering reduced the sample to 55 articles.

In the next phase of the review process, the titles and abstracts of the remaining articles were analyzed. The analysis focused on whether the articles were on the topic of performance of cross-border mergers and acquisitions for acquiring firms. Articles that were not on the topic were dismissed as irrelevant. This analysis roughly halved the number of articles, as the number of remaining articles was 27 after this step. Finally, the remaining articles were read and analyzed. Using the same criterion of relevance as in the previous step, 3 articles were dismissed as irrelevant. Thus, the final literature sample of this review includes 24 articles. The articles included in the review are summarized in *Table 2*.

Step 1.	Searching the ABI/Inform database for articles.	The search was conducted using the search string "(mergers OR acquisitions) AND ((cross border) OR cross-border) AND (success OR wealth OR performance OR returns)". The search was limited to peer reviewed content in the english language. The searched terms were to be found outside the full text.	290 articles
Step 2.	Limiting the search to top journals	The results were then limited to only include top-quality scientific journals.	55 articles
Step 3.	Title and abstract analysis	The titles and abstracts of the articles were analyzed and irrelevant articles were removed from the sample. Articles were considered irrelevant if they were not focused on the success of cross-border mergers and acquisitions from the point of view of acquiring firms.	27 articles
Step 4.	Full text analysis	Finally, during the analysis of the full texts, articles were removed as irrelevant if they did not measure the effects of cross-border mergers and acquisitions for acquiring firms' shareholders and/or did not identify factors that influence these effects.	24 articles
Final sample			24 articles

*Table 1: The systematic review process*

## 4. Determinants of CBMA performance

While the performance effects of mergers and acquisitions for the acquiring firms are generally negative (André et al., 2004; King et al., 2004), the performance is not uniformly negative, as there are a number of factors that can influence the outcome of an acquisition (André et al., 2004; Datta et al., 1992). The same holds for cross-border mergers and acquisitions, as there isn't convincing evidence that the performance of cross-border mergers and acquisitions differs from the performance of domestic acquisitions in a significant way.

In this review, the objective was to identify in the existing scientific literature factors that mediate the performance of cross-border mergers and acquisitions. The reviewed literature is summarized in *Table 2*. In the literature, there are present multiple factors that have been evidenced as having an effect on the performance of cross-border mergers and acquisitions. These factors have an effect on the returns for acquiring firms' shareholders, either in the announcement period or in the long-term.

In reviewing the literature on these factors, it became clear that the performance factors in cross border mergers and acquisitions are clustered around a handful of topics. The identified factors can be divided into four distinct categories. Firstly, it is clear that the legal environment in the target country has an effect on the returns of a transaction. Secondly, the acquiring firm's prior acquisition experience can help them extract value from acquisitions. Thirdly, cultural differences between the acquiring and acquired firms affect the wealth effects of an acquisition event. Finally, there's evidence that the technological capability of the target is associated with higher returns.

Author(s)	Publication year	Title of paper	Title of publication	Sample and methodology	Key contribution*
Barbopoulos, L.; Paudyal, K.; Pescetto, G.	2012	Legal systems and gains from cross-border acquisitions	Journal of Business Research	Sample included 6634 mergers in the UK, from 1986 to 2005. The study measured announcement period cumulative abnormal returns (CAR), 1-year cumulative abnormal returns and 5-year cumulative abnormal returns for acquirers	UK firms acquiring targets from countries with civil-law systems outperform firms acquiring targets from countries with common-law legal systems. These effects were evidenced in both long-term and short-term (announcement period) analyses.
Black, E. L.; Carnes, T. A.; Jandik, T.; Henderson, B. C.	2007	The relevance of target accounting quality to the long-term success of cross-border mergers	Journal of Business Finance and Accounting	Sample included 361 acquisitions by US firms between 1985 and 1995. The study measured announcement period, 1-year, 3-year and 5-year CAR for the acquiring firms	In cross border transactions, firms acquiring targets in countries with accounting systems dissimilar to the US earn higher returns.
Boubakri, N.; Dionne, G.; Triki, T.	2008	Consolidation and value creation in the insurance industry: The role of governance	Journal of Banking and Finance	The study analyzed 177 acquisitions in the property-liability insurance industry, of which 30 were cross-border deals. 3-year buy-and-hold returns (BHR) and 3-year cumulative abnormal returns were measured.	Firms that acquire targets in countries with better investor-protection earn lower returns compared to firms acquiring targets in countries with worse investor-protection.
Brockman, P.; Rui, O. M.; Zou, H.	2013	Institutions and the performance of politically connected M&As	Journal of International Business studies	The study analyzed a sample of 1018 acquisitions. 1-, 2- and 3-year buy-and-hold abnormal returns and industry-adjusted ROA were used as metrics.	While politically connected M&As resulted in significant underperformance in domestic deals, in cross-border deals the effect of political connectedness on acquirer performance was statistically insignificant in five out of 6 tests, albeit the effect was negative in all 6 tests.
Chakrabarti, R.; Gupta-mukherjee, S.; Jayaraman, N.	2009	Mars-Venus marriages: Culture and cross-border M&A	Journal of International Business studies	The sample consists of 1157 cross-border acquisitions, performed between 1991 and 2004. The study 36-month buy-and-hold abnormal returns and announcement returns as metrics.	In the study, firms that acquired targets from countries with higher cultural distance performed better in the long run, although the announcement effect of these transactions is worse.
Conn, R. L.; Cosh, A.; Guest, P. M.; Hughes, A.	2005	The impact on UK Acquirers of Domestic, Cross-border, Public and Private acquisitions	Journal of Business Finance and Accounting	The final sample consisted of 4344 acquisitions, of which 1140 were cross-border deals. The metrics used are 3-day cumulative abnormal return, 3-year buy-and-hold adjusted returns and 3-year abnormal returns using the calendar time portfolio technique.	Returns in cross-border acquisitions of public targets are significantly negative, while the returns in acquisitions of private targets are insignificant. It was found that the returns in high-tech cross-border acquisitions are higher than in non-high-tech acquisitions. The study also assessed how the returns for glamour, neutral and value acquirers differ in cross-border acquisitions, but these results were mixed.
Danbolt, J.; Maciver, G.	2012	Cross-border versus domestic acquisitions and the impact on shareholder wealth	Journal of Business Finance and Accounting	The sample includes 251 cross-border targets in the UK and 146 cross-border bidders in the UK. The study measured 3-day and 11-day cumulative abnormal returns.	UK firms that acquire firms in the US earn higher returns than UK firms acquiring targets in other countries. Acquisitions by firms from countries with a high-level of investor protection and better accounting quality add more value compared to other transactions, but these gains go mainly to target firms

Author(s)	Publication year	Title of paper	Title of publication	Sample and methodology	Key contribution*
Dikova, D.; Sahib, P. R.	2013	Is cultural distance a bane or a boon for cross-border acquisition performance?	Journal of World Business	The study analyzed 1223 cross-border transactions completed between 2009-2010. The authors used the percentage change in the acquirer's stock price between 3 months before the completion and 1 month after the completion as the measure of performance.	The authors find that the effect of cultural distance on cross-border acquisition performance depends on the amount of cross-border acquisition experience of the acquirer. Firms with more cross-border acquisition experience seem to be able to create more value in acquisitions of culturally distant targets.
Ellis, J.; Moeller, S.; Schlingemann, F. P.; Stulz, R. M.	2017	Portable country governance and cross-border acquisitions	Journal of International Business studies	The final sample consisted of 8090 cross-border acquisitions completed between 1990 and 2007. The study measured abnormal returns in a 5-day announcement period.	Returns for acquirers from countries with a high governance-index are found to be higher. Acquiring targets from countries with a lower investor protection index is also associated with a higher return.
Eun, C. S.; Kolodny, R.; Scheraga, C.	1996	Cross-border acquisitions and shareholder wealth: Tests of the synergy and internalization hypotheses	Journal of Banking and Finance	The sample in the study consists of 225 cross-border transactions completed between 1979 and 1990. The study measured cumulative abnormal returns.	It was found that abnormal returns for acquirer varied between countries. Acquisitions of targets with higher R&D intensity were found to be associated with higher returns for acquiring firms.
Faelten, A.; Gietzmann, M.; Vitkova, V.	2014	Naked M&A Transactions: How the lack of local expertise in Cross-border deals can negatively affect acquirer performance - and how informed institutional investors can mitigate this effect	Journal of Business Finance and Accounting	Using a sample of 748 cross-border acquisition completed between 2002 and 2011, the study measured 12-, 24- and 36-month buy-and-hold abnormal returns.	In the study, it was found that firms that have institutional investors that have prior acquisition experience in a given region can earn better returns from acquisitions in that region. This effect is largest when the target market differs a lot from the acquirer's home market.
Francis, B. B.; Hasan, I.; Sun, X.;	2008	Financial market integration and the value of global diversification: Evidence for US acquirers in cross-border mergers and acquisitions	Journal of Banking and Finance	The study used a sample of 1491 cross-border deals and 7612 domestic deals completed between 1990 and 2003. Three-day cumulative abnormal returns were measured. The study also measured operating performance.	Large firms earn significantly higher returns when they acquire targets from countries with segmented financial markets as opposed acquiring targets from countries with integrated financial markets.
Francis, B. B.; Hasan, I.; Sun, X.; Waisman, M.	2014	Can firms learn by observing? Evidence from cross-border M&As	Journal of Corporate Finance	The sample consisted of 543 transactions, in which US-based firms acquired targets in developing economies. The study measured 3-day CAR, 5-year BHAR, likelihood of deal completion and change in ROA.	The results in the study indicate that having observed completed acquisitions by competitors in a target market can help an acquirer earn higher returns in that target market. This effect is strongest in transactions where cultural differences are the highest.
Huang, Z.; Zhu, H.; Brass, D.J.	2017	Cross-border acquisitions and the asymmetric effect of power distance value difference on long-term post-acquisition performance	Strategic Management Journal	The study uses a sample of 2115 cross-border transactions in the information technology industry conducted between 1995 and 2004. The study used tobin's q to measure post-acquisition performance.	Power distance value (PDV) differences between acquiring and target firms result in worse post-acquisition performance. The effect is strongest when the acquiring firm is higher in PDV than the target.

Author(s)	Publication year	Title of paper	Title of publication	Sample and methodology	Key contribution*
Humphery-Jenner, M.; Sautner, Z.; Suchard, J.-A.	2017	Cross-border mergers and acquisitions: the role of private equity firms	Strategic Management Journal	The authors use a sample of 4452 cross-border deals completed between 1996 and 2008. The authors measured post-acquisition performance by calculating 11-day cumulative abnormal returns, 1-year changes in EBIT and 3-year changes in EBIT.	The study showed that acquirers that are backed by private equity firms earn higher announcement returns and experience better post-acquisition operating performance when they acquire targets that are situated in a poor information environment.
Jory, S. R.; Ngo, T. N.	2014	Cross-border acquisitions of state-owned enterprises	Journal of International Business studies	The study analyzes 4888 cross-border acquisitions by US firms between 1987 and 2009. The study measures 3-, 5- and 7-day cumulative abnormal returns for bidding firms.	The authors found that acquisitions where a state-owned enterprise (SOE) is the target, announcement period returns for the bidding firms are lower. This effect is larger when the target is located in a country with a higher economic freedom of the world index (EFW).
Kiyamaz, H.	2004	Cross-border acquisitions of US financial institutions: Impact of Macroeconomic factors	Journal of Banking and Finance	The sample included data for 207 bidding firms and 70 target firms in cross-border deals in financial sector. The study measured abnormal returns over periods of 21, 2, 3, 11 and 13 days around the announcement.	The results indicate that returns for acquiring firms are higher when economic conditions in the target country are worse and when the target is located in a developing country, although the perceived efficiency the target country government is associated with higher returns. Additionally, fx-volatility in the target market reduces returns for acquirers.
Kling, G.; Ghobadian, A.; Hitt, M. A.; Weitzel, U.; O'Regan, N.	2014	The effects of cross-border and cross-industry mergers and acquisitions on Home-region and global multinational enterprises	British Journal of Management	The study used a sample of 4536 mergers and acquisitions and 3277 divestitures completed between 2002 and 2007, of which over 70 % were cross-border transactions. The study measured market-to-book values and cash-flow volatility as measures of return and risk, respectively.	The study found that firms that have a stronger global presence get better results from cross-border mergers and acquisitions. Additionally, these firms lose when they weaken their global presence by divesting.
Lee, K. H.	2018	Cross-border mergers and acquisitions amid political uncertainty: A bargaining perspective	Strategic Management Journal	The sample in the study consists of 921 cross-border acquisitions during the period of 1990 to 2011. The authors measured 7-day cumulative abnormal returns for the acquiring firms.	The study finds that abnormal returns for acquirers are positively affected by political elections in the target country, as a smaller portion of acquisition gains goes to target firms in election years.
Moeller, S. B.; Schlingemann, F. P.	2005	Global diversification and bidder gains: A comparison between cross-border and domestic acquisitions	Journal of Banking and Finance	The study uses a sample of 4047 domestic transactions and 383 cross-border transactions completed between 1985 and 1995. The study measures abnormal returns for an announcement period of three days.	The study finds that the level of economic restrictiveness in the target country affects bidder returns in cross-border mergers and acquisitions. Acquirer gains are lower in acquisitions in more restrictive target markets.
Morosini, P.; Scott, S.; Singh, H.	1998	National cultural distance and cross-border acquisition performance	Journal of International Business studies	The study uses a sample of 52 acquisitions into and out of Italy between 1987 and 1992. The study used sales growth over a period of two years as the measure of post-acquisition performance. The authors also interviewed executives.	The study found that greater cultural differences between the acquiring firm and the target firm result in greater post-acquisition sales growth. The results were supported by the interviews.

Author(s)	Publication year	Title of paper	Title of publication	Sample and methodology	Key contribution*
Pablo, E.	2013	Cross-border diversification through M&As in Latin America	Journal of Business Research	The study uses a sample of 952 acquisitions in Latin America between 1998 and 2004, of which 740 are cross-border deals. Post-acquisition performance was assessed by measuring 21-, 11- and 3-day cumulative abnormal returns.	Acquirers earn higher announcement returns when they acquire targets in countries with a different legal system. Low correlation between the economy of the acquirer's country and the target country is also associated with higher announcement returns. Additionally, acquiring targets in countries with lower levels of property rights protection and high government intervention is also associated with higher returns.
Slangen, A. H. L.	2006	National cultural distance and initial foreign acquisition performance: the moderating effect of integration	Journal of World Business	The sample in the study consisted of 102 cross-border acquisitions by Dutch firms completed between 1995 and 2001. The authors assessed post-acquisition performance by asking managers to rate the performance of the acquisition based on 4 criteria.	The study found that a higher level of planned post-acquisition integration worsens acquisition success. Additionally, a high level of cultural distance between the involved firms makes this effect stronger. In this study, no statistically significant connection between acquisition success and cultural distance <i>per se</i> was found. Host-country experience, acquisition relatedness, demand growth and economic conditions also had positive coefficients.
Yoon, H.; Lee, J. J.	2016	Technology-acquiring cross-border M&As by emerging market firms: role of bilateral trade openness	Technology analysis & Strategic Management	The final sample in the study included 374 cross-border acquisitions by emerging market firms completed between 2000 and 2013. The study analyzed cumulative abnormal returns for acquiring firms using five different time periods.	The study finds some evidence that technology deals produce higher announcement returns, but this effect is only significant in a minority of the tests. The study finds that the target's innovation capabilities (as measured by the number of patents) are associated with higher announcement returns, and this effect is moderated by the degree of trade openness of the target country.

*Table 2: Summary of the reviewed literature*

\*Key contribution for a given study refers to the key contribution of the study with regards to the topic of this paper, not necessarily to the key contribution of the study to the overall scientific literature, although the two are very highly overlapping. For instance, many of the reviewed studies presented evidence on the issue of the performance of cross-border mergers and acquisitions compared to domestic acquisitions. While that question is certainly an important research topic in the field of mergers and acquisitions, it is not relevant to this paper.



## 4.1. Legal environment in the target country

One of the clearest performance factors that emerge in the prior literature on the performance of cross-border mergers and acquisitions is the legal environment in the target country. Somewhat counterintuitively, it seems that acquiring targets in countries with weaker governance standards and less investor-friendly legal environments is associated with higher returns for the acquirers (Barbopoulos et al., 2012; Boubakri et al., 2008; Ellis et al., 2017). The following paragraphs examine the findings in more detail.

In a study on the property-liability insurance industry, Boubakri et al. (2008) found that acquisitions of targets in countries with a higher investor legal protection index (an index that measures strength and impartiality of the legal system, levels of corruption, and enforcement of contracts) provided significantly worse 3-year buy-and-hold returns for acquiring firms' shareholders. The results were statistically significant, although the results have the limitation of only having been measured in the insurance industry. Similarly, Ellis et al. (2017) found that when targets in countries with lower country governance quality and lower levels of investor protection were acquired, the bidding firms received higher returns. In the study, it was also found that high governance standards in the acquirer's home country increased returns for the acquiring firm. It has also been found that acquisitions in common-law countries produce lower returns than acquisitions of targets in civil-law countries (Barbopoulos et al., 2012; Francis et al., 2008). This is supportive of the view that investor protection in the target market worsens returns, as common-law systems tend to have higher levels of investor protection (Barbopoulos et al., 2012).

Consistent with these findings, Pablo (2013) finds that acquiring targets in countries in lower levels of property rights protection leads to better announcement period returns for bidding firms. Similarly, Black et al. (2007) find that acquirers earn higher returns when they acquire firms in countries where published accounting information is less value relevant. These findings suggest that it is possible to acquire targets in less investor-friendly markets at a discount. Supportive of this view are Barbopoulos et al. (2012), who find that acquiring targets in countries with higher levels of restriction on capital mobility is associated with higher returns. Kiyamaz (2004) finds that, in the financial industry, acquiring targets from developing countries produces higher returns, which offers some support for the aforementioned findings. There is a study by Moeller and Schlingemann (2005) that found that acquisitions in markets with less restrictions produce better returns for acquirers, but, overall, the data still suggest that acquisitions in less investor-friendly legal environments provide better returns for acquirers.

Additionally, Francis et al. (2008) find that acquirers that acquire from segmented financial markets perform better than acquirers acquiring from integrated financial markets. While the finding is not directly related to the legal environment in the target country, the finding can be taken as additional evidence for the effects of the legal system in the target country, as the integration of financial markets is highly connected to corporate governance, accounting standards and investor protection.

Furthermore, Lee (2018) finds that the portion of acquisition gains going to bidding firms are higher when the acquisition is completed in an election year, which supports the notion that acquiring firms fare better when they complete acquisitions in politically uncertain environments. There is some conflicting evidence regarding the effects of this factor, however, as Danbolt and Maciver (2012) find that while acquisitions by firms from countries with stronger legal systems do produce more value, these gains go mainly to the target firms' shareholders, not to the acquiring firms' shareholders.

## 4.2. CBA expertise of the acquirer

Another highly consequential factor in cross-border acquisition success is the capability and expertise that the acquiring firm has in completing these types of transactions. While it is true that the success of all mergers and acquisitions should depend on the capabilities of the acquiring firm, cross-border mergers and acquisitions have characteristics that place additional demands on the acquiring firms. Therefore, it is not surprising that in the existing literature there are several studies that indicate that having experience and expertise in the field of cross-border mergers and acquisitions can help the acquirer extract value from the acquisitions.

Faelten et al. (2014) found that, in cross-border mergers and acquisitions, being backed by an institutional investor that has prior M&A-experience in the target market improves returns for the acquiring firms. This effect was particularly strong when the target market differed greatly from the acquirer's home market. This suggests that there are benefits to having completed prior transactions in the target market, which is not very surprising, given the numerous complexities that can arise when dealing in culturally and legally distant target markets. The findings suggest that it is possible to learn from the cross-border acquisition process and use this knowledge to improve shareholder value. Although any extrapolation of results should always be done with caution, there is no particular reason to expect that the benefits of experience are limited to institutional investors and thus not applicable to firms and individual managers. Supporting these findings are Humphery-Jenner et al. (2017), who find that private equity-backed acquirers earn better returns in cross-border mergers and acquisitions, albeit only when the target is in a poor information environment. Private equity firms tend have experience and expertise in completing acquisitions, which could allow them to help the acquiring firms create value.

The acquirer's cross-border acquisition experience is particularly important when the cultural differences between the acquiring firm and the target firm are large. Dikova and Sahib (2013) found that firms with more completed cross-border acquisitions are able to create more value in cross-border acquisitions, especially in acquisitions of culturally distant targets. Results by Francis et al. (2014) indicate that firms can also learn by observing their competitors' cross-border acquisitions. In the study, it was found that firms whose competitors have completed acquisitions in a target market can earn better returns from acquisitions in that target market (*ibid.*). The effect was stronger when the level of cultural distance between the target and acquirer was high. These findings suggest that it

is possible to learn to deal with cultural differences better and increase returns for shareholder by doing so.

There are other results that indicate that having experience in international expansion can help firms create value in cross-border mergers and acquisitions. Kling et al. (2014) found that firms with a stronger global presence earn higher returns from acquiring cross-border targets. In this study, it was also observed that firms with a strong global presence lose when they weaker their global presence by divesting abroad. This would suggest that the superior gains in cross-border mergers and acquisitions to acquirers with a strong global footprint are not attributable to organizational learning (Kling et al., 2014). These results are slightly contradictory to some of the findings presented earlier. However, it is notable that this study didn't measure the effects of having completed prior cross-border acquisitions on CBMA performance but the effects of having a strong global footprint on CBMA performance.

### 4.3. Cultural differences between the involved firms

From the existing literature, it is also clear that cultural differences between the acquiring firm's home country and the target firm's home country affect the returns for the acquiring firm's shareholders. Cultural differences between the involved firms have the capability to cause friction in the acquisition process, as it can be hard to combine two culturally very different organizations efficiently. On the other hand, acquisitions of culturally distant targets also have the potential to create more value, as the differences in values, norms and practices between the organizations provide opportunities for learning and innovation. Overall, the reviewed literature on the topic suggests that the effect of cultural distance on the wealth effects of an acquisition is not uniformly positive or negative but depends on several moderating factors. On balance, the evidence points slightly more to positive than negative effects.

In a very widely influential study, Morosini et al. (1998) find that cultural distance between the target firm's home country and the acquiring firm's home country increases the acquiring firm's post-merger performance. The authors suggest that acquiring culturally distant targets grants acquirers access to diverse routines and repertoires. However, this study has two important limitations. First, the study was limited to acquisitions in and out of Italy, which raises questions about the universal applicability of the findings. Second, the dependent variable in the study was sales growth, which doesn't necessarily measure value creation. These findings are supported by Chakrabarti et al. (2009), who find that acquisitions of more culturally disparate targets produce higher long-term results, although the announcement returns for these types of transactions are lower.

Other studies have found that cultural differences affect the wealth effects for the acquiring firms' shareholders, but the effect isn't always straightforward. For example, Slangen (2006) found no statistically significant effect for cultural distance alone but found that, combined with a high level of planned post-acquisition integration, cultural distance between the target and the acquirer is

associated with lower returns. Dikova et al. (2013) found that acquisitions of culturally distant targets produce better returns, although the effect wasn't very big. More importantly, they found that combined with prior cross-border acquisition experience, acquisitions of more culturally distant targets produced much better results (ibid.). These findings imply that the relationship between cultural distance and acquisition performance isn't simple.

Finally, there is also some evidence that acquiring culturally distant targets produces lower returns for acquiring firms' shareholders. Huang et al. (2017) found that bigger power distance value differences between the acquired and acquiring firms result in worse post-acquisition performance. As the study only focused on power distance value differences, the results don't necessarily contradict the findings presented earlier. As stated above, the effects of cultural distance on post-acquisition performance are quite complex. Together, the findings in the reviewed literature point slightly more to a value-enhancing effect.

#### 4.4. Technological capacity of the target firm

It has been observed that acquisitions of more technologically advanced targets have produced better returns for acquirers. It is possible, that by acquiring technologically advanced targets, acquiring firms are able to create excess value from the target's innovation capabilities and technological resources. Acquiring technologically advanced cross-border targets allows the acquiring firm to exploit technological expertise and resources outside its home-market, which might result in unique opportunities for value creation. It is notable, however, that measuring a firm's technological capabilities objectively is quite difficult, which does make the effects of this factor more difficult to test.

Yoon and Lee (2016) find that the number of patents owned by the target firm is associated with higher returns for the acquiring firm in cross-border acquisitions, although the study is limited to cross-border acquisitions by emerging market firms, which means that the findings might not be applicable to all cross-border acquisitions. Additionally, Eun et al. (1996) found that the higher targets firm's R&D-levels, the higher the abnormal returns for the acquiring firm. While research and development expenditures aren't a complete measure of technological capabilities, they do serve as a good proxy.

Supporting these findings are Conn et al. (2005), who found that cross-border acquisitions in high-tech industries result in better post-acquisition performance than cross-border acquisitions in low-tech industries. In this study, only deals where both the acquiring and acquired firms were in high-tech industries were classified as high-tech acquisitions. As other reviewed studies haven't found that the acquiring firms' technological capabilities have an effect on the returns, it is likely that the effect found by Conn et al. (2005) is related to the technological capabilities of the target rather than the acquirer. Thus, these findings support the evidence presented earlier regarding the benefits of acquiring more technologically advanced cross-border targets. As none of the studies found contradicting evidence, the effects of technological expertise of the target firm have quite strong backing in the literature.

## 4.5. Other factors

In addition to the four factors presented earlier, there are other factors that emerged in the literature. However, these three factors were not identified by multiple authors, and it is not clear how they might fit into the larger picture and relate to the other identified factors.

First, Brockman et al. (2013) found that political connectedness of the acquirer has an effect on the post-merger buy-and-hold returns for the acquiring firm. When the acquirer is from a country with a weak legal system, more politically connected acquirers outperform less politically connected acquirers (*ibid.*). As this is the only reviewed study that examined the effects of the acquiring firms' political connections on post-merger performance, these findings don't have much support.

Second, findings by Jory and Ngo (2014) suggest that acquisitions where the target firm is a state-owned enterprise result in worse announcement period returns for bidding firms. As the study only examined acquisitions by US bidders, it is not clear that these findings apply to all acquirers. Additionally, there were no other reviewed studies that looked into acquisitions of state-owned enterprises, for which reason the performance effects of this factor would need to be confirmed by other authors.

Third, results by Conn et al. (2005) indicate that acquisitions of public targets produce worse returns than acquisitions of private targets. The authors hypothesize that the observed effect is due to improved due diligence and monitoring, lack of hubris effects in the bid process, and the illiquidity of private companies (*ibid.*). Given this set of hypotheses, it is not surprising that similar effects have been evidenced in domestic acquisitions (Meng & Sutton, 2017). Thus, the listing status of the target company seems to be a performance factor in all mergers and acquisitions, not exclusively in cross-border mergers and acquisitions, for which reason it is not a relevant factor for the purposes of this review.

## 5. Discussion

The purpose of this study was to systematically review the existing scientific literature on the factors that determine returns for acquiring firms' shareholders in cross-border mergers and acquisitions. As presented in the previous section (4.), the key finding of the review was that the performance factors in cross-border mergers and acquisitions are clustered around four primary factors. These four factors are presented in figure 2.



2012	Danbolt, J.; Maciver, G.	Announcement period CAR	(Negative)
2017	Ellis, J.; Moeller, S.; Schlingemann, F. P.; Stultz, R. M.	Announcement period CAR	Negative
2008	Francis, B. B., Hasan, I.; Sun, X.	Announcement period CAR	Negative
2013	Pablo, E.	Announcement period CAR	Negative
2018	Lee, K. H.	Announcement period CAR	(Negative)
2004	Kiyamaz, H.	Announcement period CAR	(Negative)
2005	Moeller, S.; Schlingemann, F. P.	Announcement period CAR	(Positive)

*Table 3: Reviewed studies related to the effect of investor-friendliness of the target country legal system on returns for acquiring firms' shareholders. In the effect column, brackets indicate that the finding is only weakly supportive of the effect.*

Table 3 summarizes the evidence behind the claim that the investor-friendliness of the target country legal system affects returns for acquiring firms' shareholders negatively. All in all, of the 9 studies that investigated this effect, 6 were strongly supportive of the claim. Strong support for the claim was found in studies that investigated long-term returns (e.g. Barbopoulos et al., 2012), as well as in studies that investigated announcement period returns (e.g. Ellis et al., 2017). Therefore, the claim that investor-friendliness of the target country legal system has a negative effect on returns for acquiring firms' shareholders has quite strong support in the literature.

In addition to the strongly supportive studies, there are 2 studies that support the claim weakly and one study that contradicts the claim weakly. The first of the weakly supporting studies, Danbolt and Maciver (2012), found that less investor-friendly target legal systems lead to higher combined returns, but this benefit goes mainly to the target firms' shareholders. The second weakly supporting study, Lee (2018), found that acquisitions in countries where a political election is held in the same year result in higher returns for acquiring firms. While this doesn't directly support the claim about the effects of the investor-friendliness of the legal system, it does suggest that political uncertainty in the target country is associated with higher returns for acquiring firms' shareholders. The only study that found evidence that contradicts this claim is the study by Moeller and Schlingemann (2005) that found that higher level of economic restrictiveness in the target country is associated lower returns for acquirers. As economic restrictiveness of the target country is not a direct measure of investor-friendliness of the target country legal environment and this is the only study that found contradicting evidence, the claim is not greatly weakened by the results of this study.

Some hypotheses of the reasons for the witnessed effects of the legal system on the performance of acquiring firms have been formulated. It is possible, that in countries with weaker investor protection

and weaker accounting standards firms are subject to higher costs of capital (Black et al., 2007). This could allow them to be purchased at a discount compared to firms in countries with better institutions. It is also possible that acquiring firms from countries with higher standards of governance can bring the benefits of good governance to their targets in countries with weaker governance standards (Ellis et al., 2017), thus increasing the value of the acquired firms. Supporting this view are studies where the strength of the legal system and investor protection in the acquiring firms' home countries was associated with higher returns for acquiring firms (Brockman et al., 2013; Pablo, 2013).

## 5.2. Positive of effect of acquirer's CBA expertise

Year of publication	Author(s)	Dependent variables	Effect
2014	Faelten, A.; Gietzmann, M; Vitkova, V.	12-, 24- and 36-month BHAR	Positive
2017	Humphery-Jenner, M.; Sautner, Z.; Suchard, J.-A.	Announcement period CAR and operating performance	Positive
2014	Francis, B. B.; Hasan, I.; Sun, X.; Waisman, M.	Announcement period CAR, 5-year BHAR	Positive
2014	Kling, G.; Ghobadian, A.; Hitt, M. A.; Weitzel, U.; O'Regan, N.	Market-to-Book values and changes in Cash-flow	(Positive)
2013	Dikova, D.; Sahib, P. R.	Stock price change (-3 to +1 months)	Positive

*Table 4: Reviewed studies related to the effect of acquiring firms' cross-border acquisition expertise on returns for acquiring firms' shareholders. In the effect column, brackets indicate that the finding is only weakly supportive of the effect.*

Table 4 summarizes the evidence behind the claim that the acquiring firm's expertise in completing cross-border mergers and acquisitions has a positive effect on the performance of the acquisition. Of the 5 studies that investigated this effect, 4 found strong support for the claim and one found weak support for the claim. The studies supporting the effect measured both announcement period returns and long-term returns. Hence, the positive effect of acquiring firms' cross-border acquisition expertise has very strong support in the literature.

The most natural explanation for the effect would be that it is possible for organizations to learn from the cross-border acquisition process. This knowledge could then be used to extract better returns from subsequent transactions. Results from Dikova et al. (2004) and Francis et al. (2014) indicated that this effect is strongest in acquisitions where cultural distance was higher, which implies that navigating the cultural aspects of cross-border acquisitions is also a process that can be learned. In the study by Francis et al. (2014), it seems that firms were actually able to learn the acquisition process by observing completed acquisitions by their competitors, which suggests that direct experience might not be



necessary for learning the cross-border acquisition process. Although Kling et al. (2014) found evidence that contradicts the notion that the positive effect of acquisition experience is caused by organizational learning, their results don't weaken the notion very much as the study has two central limitations. First, the independent variables that were used are not optimal for measuring effects for shareholders. Second, their main dependent variable, the level of global diversification, is not a direct measure of acquisition experience. Thus, the most likely cause for the positive effect of cross-border acquisition expertise is organizational learning.

### 5.3. Complex effect of cultural distance

Year of publication	Author(s)	Dependent variables	Effect
1998	Morosini, P.; Scott, S.; Singh, H.	Two-year sales growth	Positive
2009	Chakrabarti, R.; Gupta-mukherjee, S.; Jayaraman, N.	Announcement period CAR and 36-month BHAR	BHAR - Positive, Announcement - Negative
2006	Slangen, A. H. L.	Ratings by business managers	No effect, moderating factors
2013	Dikova, D.; Sahib, P. R.	Stock price change (-3 to +1 months)	Positive, moderating factors
2017	Huang, Z.; Zhu, H.; Brass, D.J.	Tobin's Q	(Negative)

*Table 5: Reviewed studies related to the effect of cultural distance between the acquiring and the acquired firms on returns for acquiring firms' shareholders. In the effect column, brackets indicate that the finding is only weakly supportive of the effect.*

Of the four presented factors, cultural distance is the one for which the effect is by far the hardest to determine. Of the 5 studies that investigated the effect (presented in Table 5), two studies found the effect to be positive, two studies found mixed results, and one study found negative effects. Furthermore, the studies use such a wide variety of dependent variables that comparing the results of one of these studies to those of the other studies is difficult. Only one of the studies, Chakrabarti et al. (2009), used the CAR or BHAR methods, which are the most common methods for measuring the performance of acquisitions (See Table 2 and Appendix A.). In the study, the effect of cultural distance on announcement returns was found to be negative but the effect on long-term returns was found to be positive (ibid.), which doesn't give a clear indication of the direction of the effect.

The effect of cultural distance on returns for the acquiring firms' shareholders seems to be moderated by other factors. In the literature, planned level of post-acquisition integration (Slangen et al., 2006)

and acquirer's cross-border acquisition experience (Dikova et al., 2013) were found to moderate the effect. Moreover, Huang et al. (2017) propose that the different components of cultural distance could have effects of their own, and the effects could be nonlinear and interdependent. Thus, it is possible that the effect of cultural distance on cross-border acquisition experience is quite complex. Combining the findings of the reviewed studies, the evidence points slightly more to a positive effect than a negative effect, but the evidence is still very inconclusive.

#### 5.4. Positive effect of the target firm's technological expertise

Year of publication	Author(s)	Dependent variables	Effect
2005	Conn, R. L.; Cosh, A.; Guest, P. M.; Hughes, A.	Announcement period CAR, 3-year BHAR and 3-year CAR	Positive
2016	Yoon, H.; Lee, J. J.	Announcement period CAR	Positive
1996	Eun, C. S.; Kolodny, R.; Scheraga, C.	Announcement period CAR	Positive

*Table 6: Reviewed studies related to the effect of technological expertise of the target firm on returns for acquiring firms' shareholders.*

Table 6 summarizes the evidence regarding the effects of technological expertise of the target firm. While the studies that examined the effects of this factor are a bit fewer in number than the studies investigating the effects of the other factors, the evidence for the effects of this factor is strong. Of the 3 reviewed studies that examined the effects of this factor, all three found the effect to be positive. Furthermore, the effects were evidenced in both announcement period and long-term tests, which makes the finding more robust.

While there is no certainty about the causes of this effect, one likely cause for this effect is that cross-border acquisitions allow firms to access technological expertise and resources not present in their home countries. Supporting this hypothesis are results by Conn et al. (2005), which indicate that high-tech acquisitions provide higher returns for acquiring firms in cross-border mergers and acquisitions, but not in domestic mergers and acquisitions. It is not immediately clear why this effect is observed only in cross-border transactions. Eun et al. (1996) hypothesize that the acquiring firms might be able to employ the targets' technological resources on a larger scale than either the target firm or potential domestic acquirers, which results in added value for its shareholders.

## 6. Conclusions

### 6.1. Conclusions

The purpose of this literature review was to identify factors that determine the returns for acquiring firms' shareholders in cross-border mergers and acquisitions. As discussed in section 2.1., a central question in the research on mergers and acquisitions has been whether mergers and acquisitions increase value for shareholders. In cross-border mergers and acquisitions, as well as in the general case of mergers and acquisitions, returns for acquiring firms' shareholders have usually been found to be negative. Researchers had identified several factors that influence these returns (see e.g. Meng and Sutton, 2017; Du & Boateng, 2015). However, the picture of the different factors was quite unclear. This paper set out to fill this gap by forming a clear view of these performance factors.

Based on an analysis of 24 studies (presented in Table 2) selected through a systematic review process described in section 3., four primary determinants of performance were found. First, the investor-friendliness of the legal environment in the target country affects returns for shareholders negatively. Second, the acquiring firm's experience and expertise in making cross-border acquisitions seem to increase returns. Third, cultural differences between the acquiring and acquired firms have the potential to increase returns for the acquiring firms' shareholders, although these results are slightly more in question, and the effects might depend on moderating factors. Fourth, acquiring technologically advanced targets is associated with better returns.

Weaker accounting quality, worse governance and weaker investor protection in the target market result in better returns for acquiring firms' shareholders. This result is very strongly supported by the literature (e.g. Barbopoulos et al., 2012; Ellis et al., 2017). The finding suggests that firms in countries with efficient and investor-friendly legal systems can earn excess returns by acquiring firms in target markets with weaker institutional environments. The finding also provides incentive for countries with weaker legal systems to improve their institutions, as the relative weakness of their systems allows foreign investors purchase their companies at discount prices.

Companies that have cross-border acquisition expertise tend to be able to extract more shareholder value out of their cross-border acquisitions. This applies to companies with acquisition experience as well as to companies whose investors have expertise in the field. The finding suggests that cross-border acquisitions are a process that can be improved by learning. The value of experience is particularly high in acquisitions of distant targets.

Cultural distance between the acquiring and acquired firms has the potential to both harm and benefit the acquiring firms' shareholders. While the results are not conclusive, the evidence points slightly more to positive than negative effects. However, the relationship between cultural distance and post-acquisition performance is not a straightforward one (see e.g. Huang et al., 2017; Dikova et al., 2014), as the performance effects of cultural distance depend on mediating factors such as the acquiring firm's cross-border acquisition experience and planned level of post-acquisition integration.

Acquisitions of more technologically advanced targets outperform acquisitions of less technologically advanced targets in cross-border acquisitions (Yoon & Lee, 2016; Eun et al., 1996). Curiously, this factor only seems to affect returns in cross-border transactions. Acquiring technologically advanced cross-border targets might allow firms to benefit from technological resources that are not available in their home-markets.

This paper adds to the wide stream of literature on the wealth effects of mergers and acquisitions for acquiring firms' shareholders. As stated by King et al. (2004), a large portion of the variance in the performance of mergers and acquisitions research has remained unexplained. The field of cross-border mergers and acquisitions can be challenging, as studies in the field are fragmented across different academic disciplines (Shimizu et al., 2004). This paper contributes to the literature by summarizing what factors earlier researchers have found and combining the findings into four easy-to-understand primary factors.

## 6.2. Limitations of the study

A limiting factor for the results of this review is the variety of methods that were used by different authors to assess value creation in cross-border mergers and acquisitions. While, for the purposes of this review, long-term returns for shareholders are the most relevant metric and announcement returns are also a useful metric. Multiple authors used other metrics to assess the wealth effects of the transactions. Although it can be useful to confirm results by using other methods, it is not clear that other methods capture the wealth effects that the transactions produce accurately. Especially the articles related to the effects of cultural distance on returns used dependent variables that might not capture wealth effects for shareholders accurately.

Of the 24 scientific articles included in the review, 5 measured both announcement period returns and long-term returns. 9 of the articles used solely long-term measures of performance, and 10 measured exclusively announcement period returns. Although measuring announcement period returns is a widely used method of measuring the wealth effects of an event, the method has possible drawbacks in the case of determining the actual wealth creation in an event for which the ultimate consequences will be seen months or years after the announcement. Using announcement period returns for assessing effects of a cross-border acquisition rests on the assumption that the market is, on average, right about the consequences of these events. For example, Chakrabarti et al. (2009) found that in cross-border mergers and acquisitions cultural distance between the acquired and

acquiring firms has a negative effect on announcement period returns, but a positive effect on long-term returns. This suggests that the market might not always react to announcements of acquisitions in a rational way.

Another potential problem in the reviewed studies relates to the measurement of abnormal returns, whether long-term or in the announcement period. It is not straightforward process to determine the returns that a security should produce in a given time period. Hence, it is also problematic to conclusively determine whether a decision actually increased value for shareholders. Most common ways of determining expected returns include using market rates of return, different asset pricing models and using benchmark portfolios of comparable firms (see Appendix A). If the used benchmark does not accurately determine the expected return for the firm in the selected time period, the obtained rates of abnormal return will also be inaccurate. This problem is probably more serious in the studies on long-term returns, as in event windows of only several days the used benchmark matters less.

### 6.3. Suggestions for further research

The results of this systematic review suggest several possible directions for further research. The results on the different determinants of performance in cross-border mergers and acquisitions are still not quite conclusive, and further research is needed to confirm the effects of the different factors. Additionally, it is quite unlikely that the categories of factors that were identified in this review include all determinants of performance in cross-border mergers and acquisitions, which means that further research on the matter is still needed. Moreover, the findings of this review highlight the fact that the performance of cross-border mergers and acquisitions is affected by factors that aren't present in domestic mergers and acquisitions, which implies that it is necessary to keep researching cross-border mergers and acquisitions as an independent phenomenon.

While each of the four factors that were presented had support in the literature, there doesn't exist a study that would include all four of the factors in a regression model. Thus, it would be necessary to study if the effects of these factors persist after all the factors are included in the same regression model. Also, as there doesn't yet exist a universal and measurable definition for most of these factors (cultural distance is the exception), these definitions would need to be formulated before the study could be conducted. As CBA expertise, investor-friendliness of legal system, and technological expertise are multidimensional factors, indices would need to be constructed for these factors.

Additionally, more research is needed on the impact of cultural differences in cross-border mergers and acquisitions. Most studies included in the review assessed the impact of cultural differences as a whole. As suggested by Huang et al. (2017), it is possible that the different components of cultural differences (e.g. power distance value, masculinity/femininity) might have effects on their own. It is also possible that these effects are non-linear and interdependent and hence hard to capture in ordinary regression analyses.

## 6.4. Managerial implications

The findings of this review are directly relevant for business managers and practically applicable. As mergers and acquisitions represent a significant part of firms' investment decisions, knowing which types of acquisitions have the highest capacity to create value for the acquiring firms' shareholders is essential. Cross-border mergers and acquisitions are one of the most important tools that executives have at their disposal for expanding abroad, which implies that executives need to know which factors typically determine returns for acquirer's shareholders in these transactions.

Firstly, managers should recognize that target markets where the legal and institutional investing environment is less developed can provide unique opportunities for buying targets at a discount. This means that managers in countries with high levels of investor protection and efficient legal systems should not be overly hesitant to complete acquisitions in markets where the institutions are weaker. It is crucial to note, however, that the findings related to the legal environments in the target countries certainly don't imply that the risks of investing in countries with weaker governance and investor protection should be completely ignored. Rather, targets in these countries can probably be purchased at lower valuation levels precisely because of this higher level of risk, and the superior returns from these transactions are the result of either market overestimation of these risks or partial elimination of these risks as a result of the acquisition by a better-governed acquirer.

With regards to the role of the acquiring firm's CBMA capabilities in acquisition performance, executives should recognize that cross-border acquisitions are a process that can be learned. Thus, firms engaging in cross-border acquisitions, particularly in culturally and legally distant target markets, should ensure that they have a sufficient level of expertise in completing acquisitions in the selected target market. The findings of this literature review indicate that it is beneficial for the acquiring firm to have investors or executives that have experience and knowledge of making acquisitions in any target market that they plan to expand to.

For the acquiring firms' key personnel, it is important to recognize both the potential drawbacks and the potential benefits of acquiring culturally distant targets. Overall, it seems that cultural distance between the acquiring and acquired firms brings slightly more opportunities than threats. It is noteworthy that the influence of cultural distance on acquisition performance depends on moderating factors such as planned level of post-acquisition integration and cross-border acquisition experience of the acquirer. Hence, it seems that it is important for managers of the acquiring firms to recognize that expectations regarding the post-acquisition integration of the involved firms need to be reasonable, and that the acquiring firm needs to possess cross-border acquisition expertise in order to benefit maximally from acquisitions of culturally distant targets.

Finally, executives should recognize that acquisitions of cross-border targets can present valuable opportunities for exploiting technological resources and expertise abroad. It has been observed that, *ceteris paribus*, acquisitions of technologically advanced cross-border targets tend to result in better

post-acquisition performance. Of course, these findings should not urge managers to become irrationally optimistic about acquisitions of technologically advanced cross-border targets, as the positive performance effects are, while statistically significant, economically small enough to be easily offset by overpayment in the acquisition.

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## Appendix A: Measuring the performance of mergers and Acquisitions

To determine what the effects of mergers and acquisitions on shareholders' wealth are, one needs to isolate the returns caused by the transaction from returns resulting from other causes. The event study method emerged in the late 1960s in the fields of accounting and financial economics and the method has since become widely used in these fields, and there also studies in numerous other fields that make use of this technique (Corrado, 2011). The method has become a standard in assessing market reaction an event (Aybar & Ficici, 2009). In assessing the performance of an acquisition, focus should be on evaluating how the transaction affects the performance of the firm, not on the overall performance of the firm. The event study method is well-suited to the task, as the the basic purpose of the method is to identify the presence of event-induced returns within an event period (Corrado, 2011).

In the event study method, stock returns are observed over a time window that starts before the day of the event and ends after the event. As the impact of an event are unlikely to be realized in a single day, event studies generally use an event window of multiple days (Aybar & Ficici, 2009). Typical event window lengths are 3 days (days -1 to +1, where day 0 is the event date), 5 days (-2 to +2) and 11 days (-5 to 5). The returns over the event window are observed and then compared to a rate of expected return to determine the rate of abnormal return.

The abnormal return is the difference between expected and realized returns:

$$AR_{it} = R_{it} - E(R_{it}) \quad (1)$$

Abnormal returns are calculated for each day of the event window, and cumulative abnormal return (CAR) is the sum of the abnormal returns (Lowinski, Schiereck & Thomas, 2004). In many studies, regression analysis is then performed to identify any possible moderators of performance.

In addition to the event study method, it is possible to assess the performance of mergers and acquisitions by measuring long-term returns. For long-term performance, two measures are generally in use. First, the cumulative abnormal method presented earlier can be used for assessing long-term performance. Second, performance can also be assessed by measuring buy-and-hold abnormal returns, BHARs. As stated above, cumulative abnormal return is the sum of the daily abnormal returns. Buy-and-hold abnormal return, the other widely used measure of long-term abnormal returns, is the abnormal return that the investor would have received if they had held the security for the duration of the time window. In other words, the BHAR-method takes into account the compounding of returns.

For both long-term and short-term measures of performance, it is important to establish a benchmark to which the realized returns can be compared, i.e. an expected rate of return. Traditionally, the abnormal returns are calculated by comparing the realized returns to a rate of return predicted by a model that assumes a linear relationship between the return of a security and the return of the market

(Aybar & Fici, 2009). According to the market model, the expected return of a security is broken down as follows:

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} \quad (2)$$

where  $R_{it}$  is the return on security  $i$  at time  $t$ ,  $\alpha_i$  is the intercept term,  $\beta_i$  is the slope coefficient associated with the market return and  $R_{mt}$  is the return of the market portfolio (Lowinski, Schiereck & Thomas, 2004). There are other possible ways of calculating expected returns, such as different asset pricing models (see e.g. André et al., 2004), matching firms (see e.g. Loughran & Vijh, 1997), and constructed benchmark portfolios.